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SIPDIS

SENSITIVE

DEPT FOR S/P KRASNER, S/CRS WONG, A/S EB WAYNE, A/S DRL
LOWENKRON, EUR/ACE ADAMS, EUR/ERA CHASE
PASS USAID FOR A/AID SCHIECK, AA/PPC MENARCHIK, AA/ANE
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PASS MCC FOR AMBASSADOR DANILOVICH
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SUBJECT: LEVERAGING EU ASSISTANCE FOR US FOREIGN POLICY
GOALS

REF: BRUSSELS (04) 005521

1. (SBU) SUMMARY: President Bush's historic visit to Brussels in February 2005 has been followed by increased US-European cooperation on a range of political and security issues. An important component of that cooperation is greater synergy between US and EU approaches to development and humanitarian assistance in critical parts of the globe. In the past twelve months, the EU and the US have coordinated approaches to the next phase of assistance to Afghanistan, support for the Palestinian territories, election planning and longer-term development in the DRC, humanitarian aid in Darfur, and targeted help for elections and capacity building in Iraq. In addition, the new Development Commissioner has produced a revamped Development Strategy for the EU, which is likely to also influence member state practices, promoting a much harder-edged, results-driven approach to development in the field. The long-held view of the EU as a checkbook unattached to clear-cut foreign policy or development goals and bedeviled by endless pipeline blockages no longer reflects reality.

2. (SBU) Summary continued. This cable provides an update on RefTel on how the European Union (European Commission plus 25 member states) are working together, and with the US, in meeting the challenges around the globe. The 25 member states have a GDP roughly equal to the United States, but spend twice as much on development assistance (\$43 billion for the 15 EU member states according to 2004 OECD DAC data). One fifth of EU assistance is channeled through the European Commission (EC), making the Commission the third largest single donor in the world, an important catalyst for the EU as a whole, and a critical partner in U.S. efforts to coordinate assistance priorities. The EU Africa Strategy and EU Consensus On Development agreed in December 2005 provide the framework for assistance from the EC and member states for the next decade. The EU, long pre-occupied with increasing ODA, is now placing more emphasis on aid effectiveness, policy coherence, reduction in transactions costs and increased visibility for EU assistance. The benefits of coordinating with the Commission for US strategic interests can only increase in the coming years. END SUMMARY.

The Barroso Commission

3. (U) The European Commission directly manages 7 billion euros in assistance each year. Three Commissioners share geographic responsibility for assistance policy: Benita Ferrero-Waldner, the Commissioner for External Relations and European Neighbourhood Policy (Middle East, South Mediterranean, Central Asia, Caucasus, Eurasia, Asia and Latin America); Louis Michel, the Commissioner for Development and Humanitarian Assistance (the seventy eight African, Caribbean and Pacific countries tied to the EU through the Cotonou Treaty); and Olli Rehn, the Commissioner for Enlargement (Romania, Bulgaria and the Western Balkans). Koos Richelle, the Director General of the Directorate General for Europe Aid Cooperation (DG AIDCO) is responsible for implementation of assistance policies for all three DGs, as well as for DG TRADE and DG AGRI. As a former Development Minister in the Portuguese Government, EC President Barroso retains a particular interest in development issues and has a Member of his Cabinet designated to ensure internal coherence on development and trade issues.

4. (U) Commissioner Michel has an additional source of funding for the extensive assistance to Africa, Caribbean and Pacific countries. The European Development Fund is the main financial instrument used by the European Commission for cooperation between the EU and the Group of 78 African, Caribbean and Pacific states. The financing does not come from the Community budget, but is derived from five-yearly "ad hoc" contributions from the Union member states at the inter-governmental level. The current 9th EDF of euros 13.5

billion consists primarily of grant assistance (some eighty percent), long-term financing, flexibility to give priority and incentives to ACP countries' performance, as well as sanctioning poor results. There is an emphasis on good governance with specific measures to avoid serious cases of corruption. Country allocations are no longer automatic and performance is assessed on the basis of implementation of institutional reforms, use of resources, project success, poverty alleviation and sustainable development. The Investment Facility is currently funded at euros 2.2 billion and managed as "risk capital" to support private sector development.

High Representative for CFSP

15. (U) High Rep Solana coordinates the Common Foreign and Security Policy but, in stark contrast to the Commission, has very limited financial resources at his disposal. He is seeking to increase his resources to euros 160 million in the 2007-13 budget in order to have greater flexibility. Had the Constitution been agreed and one Foreign Minister been appointed, that person would have controlled the Commission resources. Even in the absence of the Constitutional Treaty, there are moves under way aimed at bringing the Commission's resources to bear in support of Member States, political aims. The yet-to-be agreed Stability Instrument would provide as much as 500 million euros a year that could be used to fund programs that would support the Council's policy aims. The fate of the Instrument is unclear, as is the price the Commission will demand in regard to a stronger role in foreign policy.

16. (SBU) Solana's operational budget, limited as it is, allows a quick-response mechanism to kick-in in periods of crisis. This is particularly the case for civilian ESDP missions in support of negotiated settlements and resolution of conflicts as we have seen in the EU response to Aceh, monitoring the settlement of a conflict in a major Muslim nation; and the Rafah border crossing where the EU deployed monitors along the Gaza-Egypt border (an area where US personnel cannot be deployed for security reasons) in support of Israeli disengagement.

Reforming the European Commission's Assistance

17. (U) The EC began to reform external assistance through the budgetary process under the Prodi Commission in 2003. They established the Directorate General for EuropeAid Cooperation (DG AIDCO) to implement the assistance policies of the so-called "RELEX Family" of DG External Relations, DG Development, DG Trade, DG Enlargement, DG Agriculture. They built up the capacity of the EC Delegations in the field and over a three year period "deconcentrated" authority to the field. Heads of Delegation in 77 EC missions around the world now have the authority to program the funds allocated for their country programs. Brussels Headquarters engages in setting the overall allocation, cross-border programming and monitoring. The technical capacity has been moved to the field, leaving few experts in Brussels. The EC is accelerating disbursements and commitments of funds. Commitments are up 54 per cent and payments are up 52 percent in 2005 from where they were in 2001.

18. (U) In order to better achieve policy coherence, the Commission proposed that the 2007-13 Financial Perspectives (budget) abolish the existing 90 or so funding instruments which have been built up over the years, each with its own legal base, and be replaced with six large funding instruments: (a) humanitarian assistance; (b) macro-economic financial support; (c) a new European Neighborhood Partnership Instrument for the 14 countries in the Mashrek, Maghreb, Palestinian Authority and Eurasia which form the new Neighborhood; (d) a new Development and Economic Cooperation Instrument; (e) a Pre-Accession Instrument; and (f) the Stability Instrument to bridge the gap between humanitarian assistance and longer term development assistance.

19. (U) The proposals were generally welcomed by the European Parliament and Council for policy coherence, but then interest groups became concerned when they couldn't see the line item in the budget for their issues. The Commission responded to the concerns by proposing an additional seven thematic instruments: (a) democracy and human rights; (b) food security, (c) support for non-state actors; (d) engaging the industrialized world; (e) energy and environment; (f) migration and asylum and (g) human and social development. Conceptually, the EC approach is very similar to the USAID Policy Framework for Bilateral Foreign Aid in terms of identifying categories of countries and types of assistance for which the executive is accountable to the legislative bodies for results.

Governance

10. (SBU) After much debate with member states, the EC is launching a Governance Facility as part of its proposed

European Neighbourhood Partnership Instrument. The concept is similar to the Millennium Challenge Corporation approach in rewarding performance, the notion that incentives are more important than assistance, and the importance of the process being transparent. The Commission is in the process of negotiating bilateral Action Plans with each of the ENPI partners. Seven Action Plans are agreed and five more are in process. The Action Plans have benchmarks on political reform, which if achieved will entitle the beneficiaries to a "reform premium" to be spent on mutually agreed upon investments in any sector. Thus, the EU will reward good performance against reform benchmarks. The Commission has proposed 10 to 15% of total funding for the ENPI be allocated for the Governance Facility. They will start with a small pilot effort of euros 50 million in 2006 for the countries in the Middle East eligible for MEDA funds, likely Jordan and Morocco.

¶11. (U) In a parallel fashion, the EU Strategy for Africa foresees the launching of a governance initiative in support of the African Peer Review Mechanism and to support the efforts of the countries concerned in implementing the reforms identified by those reviews.

Democracy Promotion

¶12. (SBU) In 2005, the U.S.-EU Senior Level Group (co-chaired on the U.S. side by U/S Burns and U/S Shiner) launched a dialogue on democracy promotion efforts in the dictatorships of Belarus, Zimbabwe, Iran, Uzbekistan and Myanmar (Burma). Expert level discussions have broadened the agenda to include transitional regimes in Egypt, Yemen, Ethiopia, Georgia, and Krygystan. The EC is more comfortable engaging with us on this dialogue than the member states are and during the last US-EU Task Force the EU said they preferred to use the existing U.S.-EU Troika consultations for the dialogue and filter the countries to be discussed through certain criteria. The EC has a number of tools in its tool kit which are proving particularly effective and contribute to their aspirations for greater visibility. Most notable are the Election Observer Missions managed and funded by the EC and led by a Member of the European Parliament hand picked by the Commissioner responsible for that geographic region.

Fragile States: Key Priorities

¶13. (U) The Commission, Council Secretariat and European Parliament Development Committee and Foreign Affairs Committee share a sense of concern for fragile states and see the bulk of EU assistance going to those countries, whether for poverty reduction or to address underlying causes of terrorism. Fragile states and regional instability are key security threats identified by the 2003 European Security Strategy. There is tremendous scope for deepening and broadening the dialogue on fragile states, particularly in Africa where the EU retains deep commitments in the Great Lakes region, West Africa and Horn of Africa, as well as Sudan and Liberia where we already enjoy excellent cooperation. While there is no real constituency for Asia in the European Parliament, and budgets have historically ended up skewed to other regions, there is increasing interest in dialogue and cooperation in South Asia particularly Bangladesh, Nepal and Sri Lanka.

Examples: Fragile and Strategic States

¶14. (U) Afghanistan: The Commission has remained a committed partner in Afghanistan. The EC has exceeded its original pledge of \$1 billion for the Bonn Process and are now negotiating with the European Parliament and Council for the 2007-13 budget. The EC has had the same Head of Delegation in Kabul for four years and were the first Delegation given authority from Brussels to make decisions locally. As part of the 2006 budget, the EC is looking at the possibility of providing up to euros 10 million for small EU member states to launch PRTs in Afghanistan.

¶15. (U) Iraq: The Commission has come a long way in its relations with Iraq. They have pledged and disbursed most of the EC pledge of euros 530 million through the IRFFI World Bank and UN Trust Funds. They have funded the Iraqi elections, assisted with the drafting of the Constitution and are now negotiating a bilateral Trade and Cooperation Agreement. At the political level, the EU meets regularly with Iraqi leaders, invites them to Brussels and has senior EU officials travel periodically to Baghdad. Efforts are under way to open an EC Delegation in Baghdad. In addition to their bilateral efforts, the Member States are contributing technical experts to the EU Rule of Law mission EUJUSTLEX, which trains Iraqi prosecutors, judges and prison officials.

¶16. (U) Sudan: The Commission has provided euros 196 million of humanitarian assistance (including food security) and is now implementing the first phase of development assistance activities for the 2005 -07 period for which euros 318

million are available. The EC has provided euros 162 million through its Africa Peace Facility to support AMIS and is exploring the possibility of a further euros 50 million contribution.

17. (SBU) Broader Middle East and North Africa: the Commission has made significant strides in working with us on the reform agenda over the past 18 months. They are active participants in the Forum for the Future, made a euro 1 million contribution for the Fund For the Future and are encouraging an EIB contribution to the Foundation For the Future. As one senior Commission official explained, our procurement procedures and the complexity of engagement with the member states and European Parliament have led to our "distinct, but complementary" approach the region. He went on to describe the US and EC as "like two elephants in the region, we need to pull in the same direction, but we don't necessarily need to be tied at the ankles." There is now clear consensus within the EC that incentives for reform are more important than the assistance itself. As a reminder, the EC spends over euros 2 billion per year in the Middle East and North Africa through the Euro Mediterranean Partnership/Barcelona Process.

18. (U) Haiti: the Commission hosted the Haiti Donors' Meeting in Brussels in November to ensure donor support for the transition to an elected government. Under the Interim Cooperation Agreement, the EC is providing euros 294 million, including critical budget support to the GOH to meet IMF requirements. The EC provided an additional euros 18 million to fund the EU Election Observer Mission for the elections.

19. (U) Palestinian territories: The Commission has been and remains the biggest funder for the Palestinian Authority since the Oslo Accords, providing some euros 500 million per annum. Through the MEPP and Quartet we have ensured close coordination and cooperation on assistance. We are now entering into a more challenging period as we seek to align our messages and assistance in light of the recent elections and the likely Hamas-led government. There are two ESDP (security) operations currently under way in the Palestinian Territories (a Border Assistance Mission in Rafah, and a Police Training Mission headquartered in Ramallah). It is not yet clear whether either will continue under a Hamas-led government.

20. (U) DR Congo: The DRC is at the top of the EU's list of priorities. The Commission has committed 750 million euros for humanitarian activities since the beginning of the transition, including a pledge for 38 million euros this year. Some euros 388 million are allocated under EDF for development activities. The EU Foreign Ministers have pledged to respond favorably to a DPKO request for the deployment of EU troops to provide contingency support to MONUC before and after the elections. The nature and extent of that support has not yet been determined.

Achilles' Heel of the EC

21. (SBU) While the EC is moving in the right direction in its reform of external assistance, they still face a major obstacle as their internal regulations are too restrictive and don't encourage risk taking. In acknowledging this fact, a Member of Commissioner Ferrero-Waldner's Cabinet said the forced resignation of the Santer Commission over allegations of corruption had the same psychological impact on the European Commission as "9/11" had on US thinking. The pendulum immediately swung to the extreme -- with the objective having become ensuring the accountability of funds.

When a senior official such as the Director General of Europe Aid signs funding allocations he incurs personal liability, not institutional liability as he would as a Dutch Development Ministry official.
US and EC Both Seeking Foreign Aid Reform

22. (SBU) Conclusion: The European Commission and US are both seeking to reform their foreign aid in order to provide greater policy coherence and accountability for results from taxpayer resources. We are coming from different starting points, but find ourselves in much the same place in terms of broad goals. Building on our already close policy coordination with the Council Secretariat, we can achieve concrete results on the ground by working more closely with the European Commission. We recommend the Department regional Bureaus, new USAID leadership, MCC and S/CRS look to expanding the dialogue with the European Commission on our critical priorities for assistance.

GRAY